New Investors: Why Corrections Are Healthy and How to Embrace Them

Description

Markets were in turmoil last week, with the **Dow Jones Industrial Average p**osting quadruple digit point losses in two separate trading sessions. Everyone was fearful over the historic point plunge — and the possibility of an impending bear market, but if you took a contrarian stance and bought while others sold, you're probably happy with your purchase right about now as U.S. markets bounce back from some of the "worst single-day declines in history."

In a previous piece, I noted that the markets were likely in "reset mode" after the U.S. indices turned parabolic in January. To me, the lack of volatility in the U.S. markets was scary, and the fact Ray Dalio stated that investors would "feel stupid" by holding cash made me horrified. Without a doubt, the general public was overly euphoric, and many newer investors probably wouldn't remember what it was like to experience a triple-digit percentage day in the red since U.S. market volatility fell off a cliff in 2017.

The parabolic inflection point likely nudged newer investors to start investing for the fear of missing out. Unfortunately, it's these investors who suffered the worst percentage losses over the last few weeks. Although it's a tough way to begin an investment journey, I believe it's a good thing for beginners to experience painful down days early on in their investment careers so they can truly understand their risk tolerances and realize that the markets don't always move up, even in a red-hot economy. To be successful in an investment journey that will span decades, it's incredibly important to "know thyself" early on to avoid unexpected surprises down the road as your invested principal grows with time.

Check your emotions at the door before making an investment decision

It's never a good idea to let emotions impact your investment decisions. Whether you're feeling greedy or fearful, you need to take a step back and consider the bigger picture. By acting on your emotions, you're setting yourself up to buy high and sell low, which clearly isn't a winning investing strategy.

Corrections are an opportunity for value-conscious stock pickers to buy discounted stocks on their radar. But if your emotions are influencing your investment moves, such corrections aren't an opportunity for you to get the next leg up; rather, they'll derail your investment plan, and you'll find that your returns are lacking to that of the market which you're trying to beat.

As a newbie, it's important to remember that corrections happen at least once a year. So, you should always be prepared with cash on hand to load up on bargains when you're presented with a sale.

Blue-chip dividend stocks like **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) are currently marked down after the recent correction, offering new investors a wonderful entry point in two of the lowest risk stocks out there. Think of these two stocks as high-quality pieces of physical merchandise that are significantly marked down following a Boxing Day blowout.

Corrections are nothing more than a broader sale in stocks. If you think of them like this, you'll keep your emotions in check, allowing yourself to pick up great deals over time. This is how smart investors become very rich with time: by picking up high-quality merchandise at ridiculously low prices.

Stay hungry. Stay Foolish.

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